

**REPORT OF THE AUDIT OF THE  
MCCREARY COUNTY  
CLERK**

**For The Year Ended  
December 31, 2006**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MCCREARY COUNTY CLERK**

**For The Year Ended  
December 31, 2006**

The Auditor of Public Accounts has completed the McCreary County Clerk's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$5,108 from the prior year, resulting in excess fees of \$543 as of December 31, 2006. Revenues decreased by \$13,284 from the prior year and expenditures decreased by \$8,176.

#### **Debt Obligations:**

Total debt principal as of December 31, 2006, was \$6,314.

#### **Report Comments:**

- 2006-01 The County Clerk Should Eliminate Deficit of \$273 In The Official Account
- 2006-02 The County Clerk Had \$1,421 In Disallowed Expenditures
- 2006-03 The County Clerk Should Remit Excess Fees By March 15<sup>th</sup> Of Each Year
- 2006-04 The County Clerk Should Request The Maximum Salary Amount From Fiscal Court
- 2006-05 The County Clerk Should Submit An Amended Fourth Quarter Financial Report To The Governor's Office For Local Development
- 2006-06 The County Clerk Should Remit Deed Transfer Taxes And Occupational Licenses Quarterly
- 2006-07 Salaries Should Be Reported At Gross On The Financial Statement
- 2006-08 The County Clerk Should Adhere To Fiscal Court's Administrative Code
- 2006-09 The County Clerk Should Deposit Revenues Intact Daily
- 2006-10 Pre-Numbered Receipts Were Not Accounted For
- 2006-11 The County Clerk Did Not Maintain Complete And Accurate Timesheets
- 2006-12 The County Clerk's Office Lacks Adequate Internal Controls Over Computerized Information
- 2006-13 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

#### **Deposits:**

The County Clerk's deposits were insured and collateralized by bank securities.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Blaine Phillips, McCreary County Judge/Executive  
The Honorable Jo Kidd, McCreary County Clerk  
Members of the McCreary County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of McCreary County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 17, 2008 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Blaine Phillips, McCreary County Judge/Executive  
The Honorable Jo Kidd, McCreary County Clerk  
Members of the McCreary County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2006-01 The County Clerk Should Eliminate Deficit of \$273 In The Official Account
- 2006-02 The County Clerk Had \$1,421 In Disallowed Expenditures
- 2006-03 The County Clerk Should Remit Excess Fees By March 15<sup>th</sup> Of Each Year
- 2006-04 The County Clerk Should Request The Maximum Salary Amount From Fiscal Court
- 2006-05 The County Clerk Should Submit An Amended Fourth Quarter Financial Report To The Governor's Office For Local Development
- 2006-06 The County Clerk Should Remit Deed Transfer Taxes And Occupational Licenses Quarterly
- 2006-07 Salaries Should Be Reported At Gross On The Financial Statement
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- 2006-09 The County Clerk Should Deposit Revenues Intact Daily
- 2006-10 Pre-Numbered Receipts Were Not Accounted For
- 2006-11 The County Clerk Did Not Maintain Complete And Accurate Timesheets
- 2006-12 The County Clerk's Office Lacks Adequate Internal Controls Over Computerized Information
- 2006-13 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

This report is intended solely for the information and use of the County Clerk and Fiscal Court of McCreary County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

March 17, 2008



MCCREARY COUNTY  
JO KIDD, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State Fees For Services	\$	5,608
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Fiscal Court		7,018
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	366,485
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Usage Tax		467,046
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Tangible Personal Property Tax		762,442
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Other-

Fish and Game Licenses		4,992
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Marriage Licenses		7,097
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Occupational Licenses		281
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Deed Transfer Tax		21,837
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Delinquent Tax	122,584	1,752,764
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		10,919
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Real Estate Mortgages		15,638
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Chattel Mortgages and Financing Statements		59,162
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Powers of Attorney		1,044
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All Other Recordings		21,477
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Charges for Other Services-

Bail Bonds		1,995
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Copywork	10,667	120,902
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Other:

Motax Leins		5,124
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Miscellaneous		9,479
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Affordable Housing Trust		6,724
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Preparing Tax Bills	1,343	22,670
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Interest Earned		799
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Total Revenues		1,909,761
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The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY  
 JO KIDD, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2006  
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 278,136

Usage Tax 456,536

Tangible Personal Property Tax 299,012

Licenses, Taxes, and Fees-

Fish and Game Licenses 4,763

Delinquent Tax 40,981

Legal Process Tax 14,613

Affordable Housing Trust Fund 6,774 \$ 1,100,815

Payments to Fiscal Court:

Tangible Personal Property Tax 122,728

Delinquent Tax 10,679

Deed Transfer Tax 20,175

Occupational Licenses 236 153,818

Payments to Other Districts:

Tangible Personal Property Tax 308,104

Delinquent Tax 43,885 351,989

Payments to Sheriff

1,485

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 120,134

Part-Time Deputies' Salary 16,396

Employee Benefits-

Employer's Share Social Security 15,279

Employer's Share Retirement 23,380

Employer's Paid Health Insurance 26,169

Unemployment Insurance 111

Life Insurance 786

Delta Dental Insurance 361

The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY  
JO KIDD, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2006  
(Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Contracted Services-

Advertising	\$	534
Printing and Binding		592
Software and Copier Maintenance		8,317

Materials and Supplies-

Office Supplies		3,457
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Other Charges-

Conventions and Travel		290
Dues		475
Postage		4,583
Refunds		1,173
Telephone		2,591
Miscellaneous		4,720
Electronic Funds Transfer		243

\$ 229,591

Total Expenditures \$ 1,837,698

Less: Disallowed Expenditures

Life and Dental Insurance	1,147
Finance Charges	4
Department of Revenue Penalty	270

Total Disallowed Expenditures 1,421

Total Allowable Expenditures 1,836,277

Net Revenues 73,484

Less: Statutory Maximum 69,341

Excess Fees 4,143

Less: Expense Allowance 3,600

Excess Fees Due Fiscal Court At Completion Of Audit \$ 543

The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MCCREARY COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2006  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

MCCREARY COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2006  
(Continued)

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$5,321. No funds were expended during the year. The unexpended grant balance was \$5,321 as of December 31, 2006.

Note 5. Lease

The office of the County Clerk was committed to a lease agreement with Xerox for a copier. The agreement requires a monthly payment of \$234 for 48 months to be completed on April 1, 2009. The total balance of the agreement was \$6,314 as of December 31, 2006.

Note 6. Related Party Transactions

During the year ended December 31, 2006, the McCreary County Clerk's office conducted business with Monumental Life Insurance Company. The McCreary County Clerk's bookkeeper was an employee of Monumental Life Insurance Company during the audit period. This is a continuing related party transaction and was referred to the McCreary County Ethics Commission for the year ended December 31, 2005. The commission dismissed the case for lack of clear and convincing proof of a violation.

MCCREARY COUNTY  
JO KIDD, COUNTY CLERK  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2006

Assets

Cash in Bank		\$	94,229
Deposits in Transit			12,501
Receivables:			
Interest	\$	44	
Repayment of Disallowed Expenditures		1,147	1,191
Total Assets			<u>107,921</u>

Liabilities

Paid Obligations:			
Outstanding Checks			13,113
State Treasurer-			
Motor Vehicle Licenses		7,589	
Tangible Personal Property Tax		26,812	
Legal Process Tax		1,120	
State Income Tax Withholding		1,015	
Affordable Housing Trust		4,086	
McCreary County-			
Tangible Personal Property Tax		9,153	
Delinquent Tax		1,369	
Deed Transfer Tax		3,855	
Withholdings - Occupational Tax		5,713	
Payments To Other Districts-			
Tangible Personal Property Tax:			
School		13,462	
Library		3,401	
Health		1,795	
Fire		4,485	
Delinquent Tax:			
School		3,464	
Library		367	
Health		341	
Soil Conservation		128	
Fire		843	

MCCREARY COUNTY  
 JO KIDD, COUNTY CLERK  
 SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS  
 December 31, 2006  
 (Continued)

Liabilities (Continued)

Paid Obligations: (Continued)

Payments To Other Districts- (Continued)

Sheriff Delinquent Taxes	\$	225	
FICA Withholdings		638	
Federal Withholdings		946	
Retirement Withholdings		798	
Clerk Salary		2,591	
Printing		160	
Refund		145	
		<hr/>	<hr/>
	\$		94,501

Total Paid Obligations		107,614
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Unpaid Obligations:

McCreary County-

Amount Due Fiscal Court - 2006	543
Additional Excess Fees Due - 2004	37
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Total Unpaid Obligations	<hr/>	580
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Total Liabilities	<hr/>	108,194
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Total Fund Deficit as of December 31, 2006	<hr/> <hr/>	\$ (273)
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Blaine Phillips, McCreary County Judge/Executive  
The Honorable Jo Kidd, McCreary County Clerk  
Members of the McCreary County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the McCreary County Clerk for the year ended December 31, 2006, and have issued our report thereon dated March 17, 2008. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the McCreary County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the McCreary County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the McCreary County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations as items 2006-09, 2006-10, 2006-11, 2006-12, and 2006-13 to be significant deficiencies in internal control over financial reporting.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McCreary County Clerk's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2006-01, 2006-02, 2006-03, 2006-04, 2006-05, 2006-06, 2006-07, and 2006-08.

The McCreary County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Clerk's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the McCreary County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

March 17, 2008

## COMMENTS AND RECOMMENDATIONS



MCCREARY COUNTY  
JO KIDD, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

STATE LAWS AND REGULATIONS:

2006-01 The County Clerk Should Eliminate Deficit Of \$273 In The Official Account

The County Clerk had a deficit of \$273 in the 2006 official account. This deficit was the result of \$1,421 in disallowed expenditures, which were partially repaid prior to the end of the audit fieldwork. We recommend the County Clerk deposit personal funds of \$273 to eliminate the deficit in the official account.

*County Clerk's Response: Will write a personal check to cover this.*

2006-02 The County Clerk Had \$1,421 In Disallowed Expenditures

The County Clerk expended a total of \$1,421 from the official account for disallowed expenditures listed below. Per Funk vs. Milliken, 317 S.W.2d 499 (KY 1958), county fee officials' expenditures of public funds are only allowable if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not predominantly personal in nature. Late fees or penalties and interest are not considered necessary, reasonable, or beneficial to the public. It was noted that the County Clerk does not have a separate administrative code and has been following the fiscal court administrative policy as her own. As a result, we have disallowed the life and dental insurance expenditures paid by the County Clerk from the official account because the fiscal court does not provide these benefits for other county employees. Total disallowed expenditures are as follows:

Life Insurance Premiums	\$ 786
Dental Insurance Premiums	361
Revenue Cabinet Penalty & Interest	270
Finance Charges	<u>4</u>
Total Disallowed Expenditures	1,421
Repayment By Clerk	<u>1,148</u>
Remainder Due 2006 Fee Account	<u>\$ 273</u>

We recommend in the future the County Clerk ensure that all expenditures are necessary, adequately documented, reasonable in nature and beneficial to the public.

*County Clerk's Response: I thought I already paid the entire amount.*

MCCREARY COUNTY  
JO KIDD, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2006  
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2006-03 The County Clerk Should Remit Excess Fees By March 15th Of Each Year

The County Clerk filed the annual financial statement by March 15th as required by KRS 64.152(1), but did not pay \$543 in excess fees to the fiscal court. According to KRS 64.152(1), "In counties containing a population of less than seventy-five thousand (75,000), the county clerk shall provide to the fiscal court by March 15 of each year a complete statement for the preceding calendar year of all funds received by his office in an official capacity or for official services, and of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses. KRS 64.152(2) states, "At the time of filing the statement; the clerk shall pay to the fiscal court any income of his office, including income from investments, which exceeds the sum of his maximum salary as permitted by the Constitution and other reasonable expenses, including compensation of deputies and assistants." The settlement shall be subject to correction by audit.

We recommend the County Clerk remit excess fees by March 15th, when the annual financial statement is filed. We further recommend the County Clerk pay excess fees of \$543 that are due the fiscal court.

*County Clerk's Response: This has been done for 2008.*

2006-04 The County Clerk Should Request The Maximum Salary Amount From Fiscal Court

The County Clerk did not obtain approval from fiscal court for the maximum salary amount, including fringe benefits, which the officer may expend for deputies and assistants. In the absence of a maximum amount, we have used the salary line items included in the operating budget approved by fiscal court to determine if the County Clerk exceeded the salary limit allowed by fiscal court. The County Clerk exceeded the salary budget line item approved by fiscal court in the amount of \$14,321. According to KRS 64.530(3), "the fiscal court shall fix annually the maximum amount, including fringe benefits, which the officer may expend for deputies and assistants." Therefore, the County Clerk should obtain an approved maximum amount, which the officer may expend, for deputies and assistants from the fiscal court and the approval should be reflected in the fiscal court minutes separate from the annual operating budget approved by fiscal court.

Additionally, the County Clerk should have requested a budget amendment for additional salary disbursements in excess of the salary limit set by fiscal court, even if they arise from a grant. We recommend the County Clerk obtain approval from fiscal court for the maximum salary amount, including fringe benefits, which may be expended for deputies and assistants as required by KRS 64.530. Furthermore, we recommend that the County Clerk implement procedures to ensure that salaries do not exceed the salary limits approved by fiscal court.

*County Clerk's Response: Will do this.*



MCCREARY COUNTY  
JO KIDD, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2006  
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2006-05 The County Clerk Should Submit An Amended Fourth Quarter Financial Report To The Governor's Office For Local Development

The County Clerk received an additional \$4,229 in revenue and expended an additional \$4,190 subsequent to the fourth quarter financial report being submitted to the Governor's Office for Local Development (GOLD). The County Clerk amended the report submitted to the McCreary County Fiscal Court but failed to send an amended fourth quarter financial report to GOLD. We recommend the County Clerk submit an amended fourth quarter financial report to GOLD.

*County Clerk's Response: No response.*

2006-06 The County Clerk Should Remit Deed Transfer Taxes And Occupational Licenses Quarterly

The County Clerk did not remit deed transfer taxes and occupational license taxes to fiscal court in a timely manner. During the recap of cancelled checks, auditors noted the County Clerk did not remit the county's portion of deed and occupational license taxes for April through June (2<sup>nd</sup> Quarter) until August 8, 2006. In addition, taxes for July through December (3<sup>rd</sup> and 4<sup>th</sup> Quarters) were not paid until February 5, 2007. KRS 142.050(4) requires the County Clerk to collect the tax and retain five percent (5%) as a fee for collection and remit the balance every three (3) months to the county treasurer. We recommend the County Clerk remit all taxes due for each quarter in the month after the close of each quarter.

*County Clerk's Response: Have corrected this.*

2006-07 Salaries Should Be Reported At Gross On The Financial Statement

The County Clerk reported salaries at net, instead of gross, as required on the 2006 financial statement. The Governor's Office for Local Development (GOLD) was given the authority, by KRS 68.210, to prescribe a uniform system of accounts. The 2006 Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual includes a blank form entitled "Form For Budget" that states, "This form is the required format for the budget and quarterly report." The line items for Personnel Services show the County Clerk and deputies' salaries at gross. The auditors made numerous adjustments in order for the financial statement to be in compliance. We recommend the County Clerk prepare the financial statement in accordance with GOLD's 2006 Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual.

*County Clerk's Response: Will correct this.*

MCCREARY COUNTY  
 JO KIDD, COUNTY CLERK  
 COMMENTS AND RECOMMENDATIONS  
 For The Year Ended December 31, 2006  
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2006-08 The County Clerk Should Adhere To Fiscal Court's Administrative Code

The County Clerk does not have a separate administrative code and has been following the fiscal court's administrative code as her own. KRS 68.005 (1) (c) states, "The fiscal court shall adopt a county administrative code which includes, but is not limited to, procedures and designation of responsibility for: Personnel administration...." The County Clerk does not maintain a ledger of the amount of sick or vacation time used or available for use for each employee. At the end of the 2006 calendar year the County Clerk paid each employee for one (1) week unused vacation time. The fiscal court's administrative code states that full time employees accumulate one (1) day of sick leave and vacation leave for each month's service. A maximum of 480 hours sick leave and two (2) weeks vacation leave may be accumulated. The code further states that vacation time must be used when an employee is absent from work.

We recommend the County Clerk maintain a record of sick and vacation leave used and available for each employee, as required by the fiscal court's administrative code.

*County Clerk's Response: No response.*

INTERNAL CONTROL – MATERIAL WEAKNESS:

2006-09 The County Clerk Should Deposit Revenues Intact Daily

The County Clerk's receipts ledger did not agree to the daily checkout sheets and bank deposits. During audit procedures, it was noted that the amount recorded on the daily checkout sheet as "Amount of Deposit" did not always equal the bank deposit records. Further investigation noted the following:

- The County Clerk pays cash for postage expenses and subsequently deducts the amounts from the total revenues. Unrecorded postage expense totaled \$4,535.
- The County Clerk allows employees to write checks for cash and purchase postage out of the daily receipts. Cash received from employees purchasing postage is posted as a miscellaneous receipt.
- A total of 106 days were either over or short the amount listed on the daily checkout sheet as deposited. The cumulative net shortage not accounted for totaled \$383.
- Auditors noted that bank deposits did not appear to be made daily.
- There were a total of eight instances in which the deposit did not clear the bank within three business days.
- On 8/8/06, the daily checkout sheet totaled \$9,375, less \$3 postage, for a total deposit of \$9,372. A deposit of \$6,372 was made on 8/11/06 and cleared on 8/11/06, and then an additional deposit of \$3,000 was made on 8/11/06, not clearing until 8/14/06. It appears that the daily 8/8/06 receipts were split into 2 separate deposits, with the second one being deposited at a later date than the first.

MCCREARY COUNTY  
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 COMMENTS AND RECOMMENDATIONS  
 For The Year Ended December 31, 2006  
 (Continued)

INTERNAL CONTROL – MATERIAL WEAKNESS: (Continued)

2006-09 The County Clerk Should Deposit Revenues Intact Daily (Continued)

- On 10/2/06 the bank statement showed two deposits of \$6,343 and \$6,343 with only one daily checkout sheet. However on 10/4/06 there was a daily checkout sheet totaling \$3,187, but no deposit. A deposit on 10/5/06 was \$3,144 short from the daily checkout total for the day. See table below:

Date	Daily Checkout Total	Less: Cash For Postage Withheld	Deposit Total Should Be	Actual Deposit Total	Variance	Date Deposit Cleared Bank
10/2/06	6,384	(41)	6,343	6,343	0	10/5/06
10/2/06	0	(0)	0	6,343	6,343	10/6/06
10/3/06	5,436	(0)	5,436	5,341	(95)	10/6/06
10/4/06	3,187	(0)	3,187	0.00	(3,187)	
10/5/06	7,197	(5)	7,192	4,048	(3,144)	10/6/06

In reference to the table above, the auditor reviewed the County Clerk's deposit book and it appeared that the dates and amounts on the deposit tickets for 10/2/06 and 10/3/06 had been altered, (i.e. the dates and amounts had been changed after actual deposit was made) however, the bank statement showed deposits as listed above with no corrections.

- On 12/6/06 the bank statement showed two deposits with only one daily checkout sheet. However, on 12/11/06 there was a daily checkout sheet totaling \$3,005 with no bank deposit. See table below:

Date	Daily Checkout Total	Less: Cash For Postage Withheld	Deposit Total Should Be:	Actual Deposit Total	Variance	Date Deposit Cleared Bank
12/6/06	1,842	(12)	1,830	1,830	0.00	12/13/06
12/6/06	0	(0)	0	2,883	2,883	12/8/06
12/11/06	3,020	(15)	3,005	0	(3,005)	

It was noted that the 12/6/06 deposit of \$1,830 was strictly cash, even though the copies of customer receipts showed two (2) checks being received from customers. The second deposit on 12/6/06 included checks dated 11/18/06 and 11/29/06.

- On 12/4/06 three (3) receipts totaling \$539 for delinquent taxes were issued to the same customer. The \$539 was posted correctly to the receipts ledger as a delinquent tax receipt. The auditor reviewed the 12/4/06 deposit ticket and could not locate a check deposited totaling \$539, even though a check number was listed on the pre-numbered receipt. With the assistance of the chief deputy, the check was located on the 12/1/06 deposit ticket.

The Governor's Office for Local Development (GOLD) was given the authority by KRS 68.210 to prescribe a uniform system of accounts. The 2006 Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual states that the minimum requirements

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 COMMENTS AND RECOMMENDATIONS  
 For The Year Ended December 31, 2006  
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INTERNAL CONTROL – MATERIAL WEAKNESS: (Continued)

2006-09 The County Clerk Should Deposit Revenues Intact Daily (Continued)

for all local government officials (and employees) includes, but is not limited to, daily deposits being made intact into a federally insured banking institution and keeping personal funds separate from public funds. We recommend the County Clerk take the steps necessary to be in compliance with KRS 68.210.

*County Clerk's Response: Will not cash checks for anyone.*

2006-10 Pre-numbered Receipts Were Not Accounted For

The County Clerk did not issue pre-numbered receipts for all transactions and did not account for pre-numbered receipts properly. The auditors selected several days at random and noted that receipts had not been issued for some transactions and that receipts were being issued out of sequence. The result was that large blocks of receipts were missing or unaccounted for. Failure to properly account for pre-numbered receipts negates the control they are intended to provide. We recommend the County Clerk implement a policy to account for pre-numbered receipts daily.

*County Clerk's Response: No response.*

2006-11 The County Clerk Did Not Maintain Complete And Accurate Timesheets

During payroll testing, the auditors were unable to review accurate timesheets for each pay period in the calendar year 2006. The timesheets reviewed by the auditor did not record total hours worked each week in some instances and did not include daily hours worked in other instances. Furthermore, timesheets did not reflect time worked on Saturdays for any employee even though the County Clerk's office is open. We recommend the County Clerk maintain a complete and accurate set of payroll records for each calendar year.

*County Clerk's Response: Have corrected this.*

2006-12 The County Clerk's Office Lacks Adequate Controls Over Computerized Information

During our review of internal controls over the computerized accounting information, we noted several significant deficiencies. The bookkeeper only periodically performs a back up of computerized data and the Clerk does not have off-site storage of files, systems, programs, and related documentation. The auditor also noted that a disc labeled as 2006 payroll was blank. Therefore, the County Clerk does not have sufficient procedures in place in the case of an emergency. We recommend the County Clerk strengthen the internal controls of her office by creating a plan in the case of an emergency. We further recommend this plan include procedures for daily backup of computerized information, and off-site storage of files, systems, and related documentation.

*County Clerk's Response: Files are backed & kept in vault payroll is kept off site.*

MCCREARY COUNTY  
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 COMMENTS AND RECOMMENDATIONS  
 For The Year Ended December 31, 2006  
 (Continued)

2006-13 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

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During our review of internal controls over receipts, we noted that the County Clerk and each deputy collect money using a single cash register and drawer; the County Clerk or the chief deputy prepares the daily checkout sheet and bank deposit; the County Clerk or a deputy takes the deposit to the bank; the part-time bookkeeper does not have access to cash and prepares the monthly bank reconciliation, posts the daily checkout sheet to the ledger, and prepares all financial reports; the County Clerk reviews all reports prepared by the bookkeeper. However, evidence of these controls was not found during audit procedures. We recommend the County Clerk segregate duties or implement the following compensating controls over receipts:

- The County Clerk should recount the daily bank deposit prepared by another employee and compare the deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. This could be documented by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- Documented surprise cash counts by the County Clerk.
- County Clerk should agree daily AVIS computer totals to receipts for usage tax, license fees, and tangible personal property taxes, documented by initialing the AVIS documents.
- County Clerk should reconcile other monthly reports to source documents and the receipts and disbursements ledgers, documented by initialing the monthly reports, source documents, and the receipts and disbursements ledgers.

The County Clerk prepares, signs, and mails all checks except for payroll disbursements. Timesheets are approved by the County Clerk and submitted to the bookkeeper. The bookkeeper calculates all withholdings and prepares the checks. The County Clerk reviews the checks and dispenses to each deputy. The bookkeeper posts all the disbursements to the ledger. No compensating controls exist over this area. We recommend the County Clerk segregate duties or implement the following compensating controls over disbursements:

- Two people, with one being the County Clerk, should sign all checks.
- The County Clerk should examine checks prepared by the bookkeeper and compare to supporting documentation. This could be documented by initialing the supporting documentation.
- The County Clerk should review the monthly bank reconciliation prepared by the bookkeeper and compare the balance in the ledgers to the balance in the checkbook. Any differences should be reconciled. This could be documented by initialing the bank reconciliation and the balance in the checkbook

*County Clerk's Response: I review all this but just have not been putting my initial.*

